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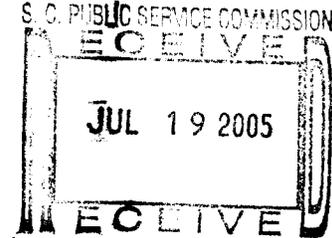
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July 14, 2005

Hand Delivered



Mr. Charles L. A. Terreni
Chief Clerk/Administrator
South Carolina Public Service Commission
Post Office Box 11649
Columbia, South Carolina 29211

Re: Application of Melrose Utility Company, Inc. for Adjustments in
Rates and Charges for Water and Sewer Services (Docket No. 2005-
74-WS)

Dear Mr. Terreni:

Enclosed herewith for filing with the Commission, please find twenty-five (25) copies of the prefiled Direct Testimony of Elizabeth J. Oliver and of Christopher J. Hutton on behalf of Melrose Utility Company, Inc., which testimony is filed pursuant to the Commission's notice dated April 19, 2005 in the above-captioned docket.

Should you have any questions with respect to this testimony, please do not hesitate to contact me.

Very truly yours,

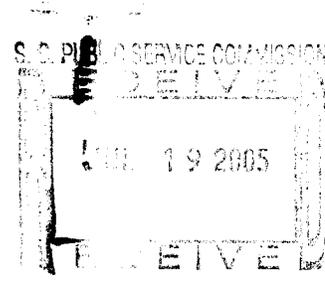
Robert T. Bockman

Enclosures

cc: Florence P. Belser, Esquire
C. Lessie Hammonds, Esquire
John F. Beach, Esquire

BEFORE

THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA



Docket No. 2005 - _____ - W/S

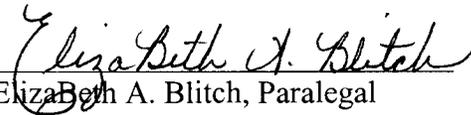
In Re: Application of Melrose Utility)
Company, Inc., for Adjustments)
in Rates and Charges for Water)
and Sewer Services)
_____)

**CERTIFICATE OF
SERVICE**

I, ElizaBeth A. Blich, do hereby certify that I have this date served one (1) copy of the Prefiled Direct Testimony of Elizabeth J. Oliver and of Christopher J. Hutton upon the following counsel of record by causing said copy to be deposited with the United States Postal Service, first class postage prepaid and affixed thereto and addressed as follows:

Florence P. Belser, Esquire
C. Lessie Hammonds, Esquire
Office of Regulatory Staff
Post Office Box 11263
Columbia, South Carolina 29211

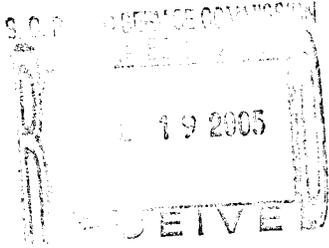
John F. Beach, Esquire
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Columbia, South Carolina 29211
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July 14, 2005

Columbia, South Carolina

BEFORE



THE PUBLIC SERVICE COMMISSION OF

SOUTH CAROLINA

Docket No. 2005 - 74 - W/S

DIRECT TESTIMONY

OF

ELIZABETH J. OLIVER

FOR

MELROSE UTILITY COMPANY

Q. PLEASE STATE YOUR NAME, POSITION, AND BUSINESS ADDRESS.

A. My name is Elizabeth J Oliver. I am employed as Director of Finance at Daufuskie Island Properties, LLC, 421 Squire Pope Road, Hilton Head Island, South Carolina 29925.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL TRAINING AND PROFESSIONAL EXPERIENCE.

A. I have been employed by Daufuskie Island Properties, LLC since April 2004. I hold a BA in Hotel and Catering Management, the Accounting Certification of CACA (Certified Association of Chartered Accountants) issued in Scotland, and I am also a Certified Public Accountant and have a Masters Degree in Taxation. I have been employed as a controller in the hospitality and resort industry for many years.

Q. PLEASE DESCRIBE YOUR GENERAL RESPONSIBILITIES.

A. My duties with Daufuskie Island Properties, LLC, include overseeing the financial operations of Daufuskie Island Properties, LLC, and the other companies which are related to it. This includes real estate sales, a realty company, a concrete company and Melrose Utility Company, among others.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to help sponsor Melrose Utility Company's Application for an adjustment of certain rates and charges for the provision of water and sewer services. I shall principally provide testimony to describe and support the exhibits in the Company's Application.

Q. PLEASE DESCRIBE THE GENERAL FINANCIAL CONDITION OF MELROSE UTILITY COMPANY.

A. For the test year ended November 30, 2004, the Company incurred an operating loss in excess of \$100,000.00, and for the fiscal year ended December 2003, a loss of \$129,715.79. Daufuskie Island Properties, LLC, took over the Company at the end of December 2002. As a result of previous ownership changes, no rate increases have been put into effect since September 1987, and operating losses as well as the cost of capital improvements during that time have been borne by the Company's owners. Daufuskie Island Properties, LLC, would like to be in a position whereby the Company offers a reasonable quality of service to its customers, while meeting its operating expenses, and being able to fund improvements necessary to meet regulatory standards.

Q. PLEASE SUMMARIZE THE INFORMATION IN THE COMPANY'S APPLICATION.

A. The Application includes the proposed rate schedule, test year financial statements, as well as an income statement for the fiscal year 2003, a proforma income and expense statement using the proposed rate changes and applied to the test year, a schedule of depreciation and plant investment, the number of customers, a sample customer bill, list of DHEC permits and cost justifications for the proposed tap fees. I was responsible for the preparation of the exhibits that support the Company's Application.

Q. PLEASE DESCRIBE THE PROPOSED ADJUSTMENTS IN RATES AND CHARGES FOR WATER USAGE.

A. The proposed changes to the Company's water schedule include an increase in the base monthly charge for residential use from \$15.00 to \$25.00 for 0-7500 gallon usage, with an increase from \$1.20 to \$1.77 per 1000 gallons over 7500 gallons.

The proposed increase in commercial rates is from \$21.00 to \$33.00 per month for the base charge of 0-7500 gallons, with an increase from \$1.20 to \$1.41 per 1000 additional gallons.

The Company has also proposed increasing the residential customers tap fee from \$500 to \$650 to include the tap fee and ¾" meter with box.

For commercial customers, the Company proposes increasing the tap fee for water meters up to 1.5" from \$500.00 to \$650.00, the tap fee for a 2" or 3" meter from \$1,500.00 to \$1,800.00, and the tap fee for a 6" meter from \$3,500.00 to \$4,000.00.

The effect of the proposed rate increase is that the base charge for residential water customers would increase by 66%, or \$10.00 per month, and tap fees would increase by 30%. Commercial customers would see a 57% rate increase in the base service, or \$12.00 per month, with an increase in tap fees ranging from 14.3% to 30%.

Q. PLEASE DESCRIBE THE PROPOSED ADJUSTMENTS IN RATES AND CHARGES FOR SEWER USAGE.

- A. The proposed changes to the Company's sewer rate schedule include an increase in the base monthly charge for residential use from \$15.00 to \$25.00 per month for 0-7500 gallons usage, and an increase from \$0.96 to \$1.41 per 1000 gallons over 7500.

The proposed increase in commercial rates is from \$21.00 to \$33.00 per month for the base charge of 0-7500 gallons, and an increase from \$0.96 to \$1.41 per 1000 additional gallons.

The Company has also proposed increasing the residential customers tap fee from \$500.00 to \$800.00 to include the tap fee and service lateral.

For commercial customers, the Company proposes increasing the tap fee for a 4"-6" diameter lateral from \$500.00 to \$650.00.

The effect of the proposed rate increase is that the base charge for residential customers would increase by 66%, or \$10.00 per month, and tap fees would increase by 60%. Commercial customers would see a 57% rate increase in the base service, or \$12.00 per month, with an increase in tap fees ranging up to 30%.

Q. PLEASE DESCRIBE THE ACCOUNTING EXHIBITS IN THE APPLICATION.

A. The Company selected a test year of the twelve months ended November 30, 2004, a year other than our fiscal year end to commence the Application process more timely. The schedules show the income statement for the period ending December 31, 2003. However, an adjustment was made to that income statement by our tax accountant which altered depreciation slightly and changed the net loss to \$129,715.79. Revised statements are attached to this testimony. The statements show revenue of \$277,243.61 and expenses of \$406,959.40. Also attached is the balance sheet for the year ended November 30, 2004, showing customer receivables of \$64,041.58, monies owed to Daufuskie Island Properties, LLC, of \$255,402.53, net fixed assets of \$293,370.32, and retained losses. A fixed asset and depreciation schedule for the year ended December 31, 2003, is also included. The exhibits include a calculation based on the then current customer base at the proposed new rates and the effect that would have on the test year operating experience.

Q. PLEASE DESCRIBE THE PROFORMA EXHIBITS.

A. The proforma adjustments included on that schedule are calculated simply by applying the proposed rates to the existing customer base. There were no proforma adjustments to expenses.

Q. DOES THAT CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes.

Melrose Utility 2003	PTD Postings	% Sales	YTD Postings
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SALES

----- Sales -----			
Availability Fees	26340.00	95.91	77331.73
Water - Residence	2294.40	8.35	15724.12
Water - Commercial	-9078.00	-33.05	21934.80
Water -Comm 2Ut	4038.00	14.70	21895.20
Water -Min Use	135.00	0.49	32175.00
Water -Irrigation Comm	931.40	3.39	13862.80
Water -Irrigation Residence	276.60	1.01	2486.80
Sewage Residence	2240.52	8.16	14608.16
Sewage -Commercial	-6783.60	-24.70	20027.76
Sewage -Comm 2Ut	4034.88	14.69	22212.24
Sewage- Min Use	135.00	0.49	32085.00
Tap Fees	1450.00	5.28	1450.00
Tap Fees-Sewer	1450.00	5.28	1450.00
Total Sales	27464.20	100.00	277243.61
Total SALES	27464.20	100.00	277243.61
Gross Margin	27464.20	100.00	277243.61

EXPENSES

----- Expenses -----			
Bonus			2696.83
Chief Engineer			3538.46
Engineer Technicians	7786.17	28.35	132385.95
Contract Labor	450.00	1.64	20768.88
Taxes & Benefits	2701.95	9.84	3600.52
Accrued PTO	650.00	2.37	3028.54
Legal Fees	1032.00	3.76	13597.96
Departmental Supplies	2285.35	8.32	34019.23
Equipment Rental	2386.17	8.69	2182.65
Equipment Repair	9628.00	35.06	29211.25
Gass & Oil	58.70	0.21	1114.44
Maintenance Contracts	2301.50	8.38	27655.03
Miscellaneous	347.10	1.26	3432.75
Service Contracts	2201.20	8.01	22420.13
Telephone	98.89	0.36	1215.54
Insurance	3492.88	12.72	3492.88
Depreciation	27934.33	101.71	38502.94
Licenses	2200.00	8.01	2200.00
Testing			9859.02
Bad Debt	4378.05	15.94	4378.05
Property Taxes	3000.00	10.92	3000.00
Total Expenses	72932.29	265.55	362301.05

----- Other Expenses -----

Utility -Electric	2183.41	7.95	44000.04
Income Tax	-331.97	-1.21	233.03
Utility-Water/Sewer			425.28
Total Other Expenses	1851.44	6.74	44658.35
Total EXPENSES	74783.73	272.30	406959.40
Net Income from Operations	-47319.53	-172.30	-129715.79
Net Income after taxes	-47319.53	-172.30	-129715.79

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Melrose Utility Company
Detail Balance Sheet
As of Period Ending December 31, 2003
Detail: Account Number, Sort: Account Number
Exclude Zero Balances, Exclude Closing Entry

Melrose Utility 2004 Balance

ASSETS

----- Assets -----

Customer Receivables	105610.13
Licenses	2939.98
Intercompany DIRS	-194487.72
Deposits	347.10
Total Assets	-85590.51

----- Fixed Assets -----

Building	17912.26
Construction in Progress	2100.00
Land Improvements	400516.67
Machinery & Equipment	108058.05
Furniture & Fixtures	1193.00
Accumulated Depreciation- Furniture & Fixture	-304109.18
Deposits	-347.10
Organizational Costs	41266.99
Accumulated Depreciation- Organizational Costs	-82.37

Total Fixed Assets **266508.32**

Total ASSETS **180917.81**

LIABILITIES

----- Liabilities -----

Accrued Property Taxes	8647.91
Accrued Federal Tax Withholding	1000.00
Accrued Miscellaneous	12043.41

Total Liabilities **21691.32**

Total LIABILITIES **21691.32**

EQUITY

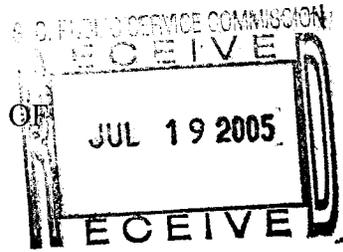
----- Equity -----

Common Stock	1000.00
Paid In Capital	548642.02
Paid Dividends	266537.92
Retained Earnings - Prior Periods	-527237.66

Melrose Utility Company
Detail Balance Sheet
As of Period Ending December 31, 2003
Detail: Account Number, Sort: Account Number
Exclude Zero Balances, Exclude Closing Entry

Total Equity	288942.28
	-129715.79
Total EQUITY	159226.49
Total Liabilities and Equity	180917.81

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
Docket No. 2005 - 74 - W/S
DIRECT TESTIMONY
OF
CHRISTOPHER J. HUTTON
FOR
MELROSE UTILITY COMPANY, INC.



Q. PLEASE STATE YOUR NAME, POSITION, AND BUSINESS ADDRESS.

A. My name is Christopher J. Hutton. I am employed as Vice President and General manager of Hutton Brothers' Contracting Co., Inc. ("Hutton Brothers"), located on Daufuskie Island, South Carolina.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL TRAINING AND PROFESSIONAL EXPERIENCE.

A. I attended the University of Georgia, the University of Boston, and concluded my collegiate studies in 1978 at the University of Rhode Island with a Bachelors of Business Administration in the General Studies Program. While pursuing my college education, I performed as an Engineer In Training/Field Inspector for Keyes Associates in Providence, Rhode Island on their various projects in Newport, Rhode Island. Since 1978, I have performed utilities installation and maintenance project management functions for the Kuwait Investment Company in the development of Kiawah Island, the

United States Navy at Charleston Naval Shipyard, and all projects on Daufuskie Island. I relocated to Daufuskie in 1985 when development commenced and have lived on Daufuskie since then. I brought my management services business along and operated only as a project manager until the creation of Hutton Brothers' in 1996. Today, Hutton Brothers' is licensed by the State of South Carolina to provide general contracting for commercial projects, builder's contracting for residential projects, municipal water and sewer systems installation and repair, highway construction and repair, and licensed construction management services. We work primarily on Daufuskie Island although we have occasional projects elsewhere.

Q. WHAT IS YOUR EXPERIENCE WITH MELROSE UTILITY COMPANY?

A. The Melrose Utility Company, Inc. ("Melrose") became a client of Hutton Brothers' while the utility systems were under construction from 1985 through 1988. I am familiar with most of the installation conditions, locations, and the methods and materials of installation in use when the installation of the systems occurred.

Q. PLEASE DESCRIBE THE MELROSE SYSTEMS.

A. The water distribution system consists of four water source wells--two in the Melrose Tract and two in Bloody Point Tract; four pump houses; hydro-pneumatic storage tanks; and appropriate valved piping to deliver potable water to each lot or commercial user property line. The waste collection system consists of property line service laterals connected to gravity mains that flow to fourteen lift sewerage stations in the Melrose Tract, three sewerage lift stations in the Bloody Point Tract, and various force mains to deliver waste to the Bloody Point Treatment Plant or the Haig Point/Melrose Treatment Plant. Initially the system functioned as expected and provided good service where

needed. Over the past ten (10) years, there has been some reduction in reliability and occasional failure of some components which indicates a general deterioration of some parts of the distribution and collection system. As of today, the system is in fair to good shape overall with some components requiring replacement while others can be expected to provide good service for an additional twenty years. Staffing is still at the 1985 development level although systems needing attention are requiring more man-hours than they did twenty years ago. Some vehicles are past reliable service lives, and Melrose should develop a more systematic program for basic repair and maintenance capacity. There is a need to address the increased workloads and the aging of equipment to prevent any failures of the essential systems on this fragile sea island.

Q. WHAT RE THE BASIC ISSUES THAT MELROSE SHOULD BE IN A POSITION TO ADDRESS?

A. There are three main issues:

- 1) Sewage lift stations and concrete manholes are deteriorating rapidly. Because of the pervasive salt atmosphere, the life expectancies of equipment in an area like Daufuskie Island are far less than typical. Control boxes and their components, in some cases, need replacing. Manholes need remediation due to channel erosion which causes wastewater aeration prior to treatment plant delivery, as well as unpleasant odors for surrounding neighborhoods. None of this work can be accomplished by in-house staff because it is beyond typical maintenance activity.
- 2) Water distribution systems, from wells and pumps to property line meters, have experienced discrepancies in the volume of water that is removed from the groundwater resource and the volume that is metered out to customers. The

discrepancy indicates that there is a systemic problem with metering and monitoring. This ongoing discrepancy and the inability to determine its cause can be a cause for concern for permitting authorities.

- 3) Effluent transfer systems for both treatment plants, one of which is wholly owned by Melrose (Bloody Point Plant) and the other (Haig Point/Melrose plant) which is forty percent (40%) owned by Melrose, are essentially non-functional if original design is a guide to performance. Due to the extremely low flows over the past twenty years, these systems were infrequently used, and were given a low priority for maintenance and repair. Now that flows are gradually increasing to low design estimates, the systems will not deliver and disburse the plant effluent as designed. Here, too, the in-house staff does not have the capability to repair or replace these systems due to insufficient monetary resources and lack of qualified personnel to remediate the system shortcomings.

Q. WHAT DO YOU RECOMMEND TO ADDRESS THOSE ISSUES?

A. Activities that should be addressed by Melrose are:

- 1) Provide sufficient field personnel to operate and maintain the infrastructure effectively. Assure that those people either have or can obtain the correct operating licenses and enforce preventive maintenance programs.
- 2) Provide the correct equipment to ensure adequate operation and maintenance of the systems.
- 3) The water distribution system needs updating and some extensive maintenance on above ground features, such as sandblasting and painting of exposed piping, valve maintenance, and tank foundation repairs. The wells and associated control

systems are in fair condition, and some controls need replacing, but overall adequate service should continue without fail for an additional five years.

- 4) Repairs to the collection system are needed. The sewerage collection system is far more complex than the distribution system as it relies on more mechanical components spread over the entire tract. All lift stations are in need of some maintenance, to varying degrees, to maintain operations for an extended, foreseeable future.
- 5) The wastewater treatment plants are both in fair condition, the exceptions noted by inspecting authorities are minor and relatively simple to correct. The two major issues at both plants are the status of the standby generating system condition and the ability to pump treated effluent to the sprayfields (golf courses) as designed.
- 6) Other items, such as signage, fencing, etc., are not related to actual quality of performance of the systems. They should be addressed by staff as routine business. Those improvements will require the expenditure of funds that have not been available to Melrose under its current rate structure.

Q. DOES THAT CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes.